



## **INDONESIA: ENERGY HIGHLIGHTS AUGUST 2005**

### **Summary**

- A mass power outage hit Java and Bali on August 18 as grid failure sent several power plants offline.
- President Susilo Bambang Yudhoyono inaugurated the Blue Sky refinery project in Balongan, East Java, on August 28.
- The Ministry of Energy and Mineral Resources (MEMR) announced nine “direct offer” tender winners of oil and gas blocks on August 4.
- For the third time in 2005, state oil company Pertamina raised fuel prices to industrial customers on August 1. The firm also launched a higher-grade diesel fuel oil, Pertamina DEX, on August 15.
- The publicly listed Indonesian energy company PT Medco Energi sold its 15 percent interest in the Asahan Production Sharing Contract to Canada’s Serica Energy on August 15.
- State electricity company PLN signed a heads of agreement with Medco Energi and Petrochina for the sale of flare gas from the Tuban field, East Java, on August 19.
- President Yudhoyono, Minister of Energy and Mineral Resources Purnomo Yusgiantoro, Chevron Chief Executive Officer David O’Reilly, and a senior U.S. Department of Energy official spoke at the Indonesian Petroleum Association’s 30th annual convention and exhibition in Jakarta. The convention’s theme was “The Urgency of Building Competitiveness to Attract Oil and Gas Investment in Indonesia”

Note: This report uses an exchange rate of 1 USD = Rp 10,500

## **Mass Power Outage Hits Java and Bali**

On August 18, broad swaths of Java and Bali were powerless as grid failure forced several power plants to go temporarily offline. The Java-Bali grid experienced an electricity deficit of around 11,400 MW or almost 80 percent of the customary total supply of 14,655 MW, for up to 12 hours in certain areas. Although investigators have yet to find the actual cause of the disruption, a PLN press release stated the failure was due to malfunction of the protection system relay on the Cibinong-Saguling high voltage transmission line in West Java. The outage heavily impacted power supply to Jakarta and Banten Province, disrupting traffic lights and railway operations. PLN announced that in an effort to compensate customers for the outage, it would offer 10 percent discount from August electricity bills.

There is currently only one high voltage transmission line connecting East and West Java, the northern transmission line, making the grid susceptible to disruption. Construction of a southern transmission line is underway but is not expected to be complete until the end of 2005 or later. Following the completion of the transmission line, the Government of Indonesia (GOI) hopes that additional power supply of around 2,650 MW will come online in 2006 through the completion of three new power plants, Cilacap, Tanjung Jati B and Cilegon.

## **Blue Sky Refinery Inauguration**

On August 28, President Yudhoyono inaugurated Pertamina's Balongan Blue Sky refinery project in Indramayu, West Java. The project, which is an extension of the existing Balongan refinery, took 27 months to finish from its March 2003 start date, and cost approximately USD 228 million. The refinery has production capacity of 47,000 barrels of unleaded Premium per day and 200 tons of LPG per day. According to MEMR Minister Purnomo, the refinery will help Indonesia save around USD 1 billion in annual fuel imports or approximately 12 million barrels. The GOI's 1996 Blue Sky program monitors and controls emissions from vehicles and encourages the utilization of fuel gas, low-sulfur and lead-free fuels. Indonesia currently has 9 refineries with an installed capacity of 1.05 million barrels per day (bpd). However, with current consumption at approximately 1.4 million bpd, Indonesia has been forced to import increasing quantities of refined fuel products. Most analysts believe the country urgently needs more investment in new refineries to reduce its reliance on fuel imports.

## Direct Offer Tender Winners Announced

On August 4, the Ministry of Energy and Mineral Resources (MEMR) announced nine tender winners for the July 2005 direct offer bidding round. Among the winners were ConocoPhillips and Indonesian oil firms Energi Mega Persada (EMP) and Star Energy. ConocoPhillips won the Amborip VI block offshore Papua, which the MEMR first offered in 2002. MEMR reported signatory bonuses of USD 7.9 million from the nine winners and an estimated exploration commitment of USD 102.5 million over the first three years. Four of the 13 blocks offered remain unsold-- North East Madura V, North Bali II, Taritip and Amborip V. Indonesia offered 27 blocks in July this year through regular and direct offer tenders. The MEMR will announce winners in the regular tender process in November 2005.

**Table 1: 2005 direct offers bidding round results**

No.	Block Offered	Location	Status
1	Lhokseumawe	Onshore/Offshore Aceh	Awarded to Zaratex NV
2	West Kampar	Onshore Central Sumatra	Awarded to PT Sumatera Persada Energi
3	Bungamas	Onshore South Sumatra	Awarded to PT Erry Guna
4	Bengkulu	Onshore/Offshore Bengkulu	Awarded to PT Commissioning Services Indonesia
5	Citarum	Onshore West Java	Awarded to PT Bumi Parahyangan Ranhill Energia
6	NE Madura V	Offshore Madura	Unsold (2004)
7	North Bali II	Offshore East java	Unsold
8	East Kangean	Offshore East Java	Awarded to PT Energy Timur Jauh
9	Taritip	Makassar Strait	Unsold
10	Sebatik	Onshore/Offshore East Kalimantan	Awarded to PT Star Energy
11	Amborip-VI	Offshore Papua	Awarded to ConocoPhillips
12	Amborip-V	Offshore Papua	Unsold
13	Wailawi	Onshore East Kalimantan	Awarded to BUMD Benuo Taka*

Note: \* Owned by the Government of East Kalimantan Province.

## Pertamina Raises Fuel Prices for Industrial Users

State-owned oil and gas company Pertamina raised fuel prices by an average of 13 percent for its industrial customers on August 1, the third time it has raised prices in

2005. Pertamina also broadened the range of industries required to buy fuel at market prices. Apart from oil and gas contractors and the mining industry, the new prices also apply to large industries with over 500 kiloliters of monthly fuel requirements, Independent Power Producers (IPP) not selling electricity to PLN, large fishing boats, industries located in bonded zones, and “industries switching to oil”. (Note: Pertamina did not specify the meaning of the term “industries switching to oil.”) Pertamina claimed that the price increases are intended to reduce domestic consumption, which has significantly exceeded quotas for subsidized fuel set by Parliament.

**Table 2: Development of Industry Fuel Prices--2005**  
(Prices in Rp; increases in percentage)

Fuel Type	1-Jan	1-Mar	1-Jul	1-Aug	Increase*
Premium	2,100	2,870	4,060	4,640	14.3
High Speed Diesel	2,100	2,700	4,740	5,480	15.6
Diesel Oil	2,050	2,660	4,560	5,240	14.9
Kerosene	2,200	2,790	4,940	5,490	11.1
Fuel Oil	1,600	2,300	2,900	3,150	8.6

Note: \* Percentage increase from July prices

## **Medco Farms out Asahan PSC**

On August 15, Medco Energi signed a “farmout agreement” with Asia Petroleum Development (APD) to sell its 15 percent interest in the Asahan Production Sharing Contract (PSC) offshore North Sumatra. APD is a wholly owned subsidiary of Canada’s Serica Energy Corporation. The agreement follows Serica’s agreement with Duinord Petroleum Inc to buy Duniord’s 25 percent interest in Asahan. With the combined transactions, Serica will now own a 55 percent interest in the block through its APD subsidiary and remain as operator. The MEMR first awarded the Asahan PSC to Risjad Salim Petroleum in 1996. The PSC surrounds the Kambuna gas prospect, which is estimated to contain 24 million barrels of oil equivalent of reserves.

## **PLN Signs Flare Gas Agreement**

On August 19, PLN signed a six-year Heads of Agreements (HOA) to buy flare gas from the Tuban block, jointly owned by Pertamina, Medco Energi and Petrochina. The contract will begin in 2006 and cover the sale of 5-7 million British Thermal Units (MMBTU) per day at USD 1.10 per MMBTU. PLN plans to utilize the flare gas for a planned 20 MW power plant in East Java. Head of the Upstream Regulatory Authority (BP MIGAS) Kardaya Warnika, reportedly said that PLN has the potential to save up to

Rp 9 billion (approximately USD 865 thousand) per month from using flare gas instead of diesel oil. Currently 30 percent of PLN's power plants operate on diesel or fuel oil. However, the company hopes to shift away from oil-fired power plants and hopes to generate 32 percent of power through gas fired plants by 2007.

## **IPA Holds Thirtieth Annual Convention**

President Yudhoyono, Minister of Energy and Mineral Resources Purnomo Yusgiantoro, Chevron Chief Executive Officer David O'Reilly, and James Slutz, Deputy Assistant Secretary for Oil and Gas, U.S. Department of Energy, spoke at the Indonesian Petroleum Association's 30th annual convention and exhibition in Jakarta. In their speeches, the President and the Minister acknowledged that Indonesia is faced with the challenges of declining oil production, surging domestic demand and an increasingly untenable fuel subsidy policy. Thus Indonesia needs investment and cooperation between all stakeholders, including the government, civil society and business community. In addition, the President encouraged energy conservation and diversification, including the use of gas and other renewable energy sources.

The convention has been Indonesia's premier oil and gas event since 1972. This year convention theme, "The Urgency of Building Competitiveness to Attract Oil and Gas Investment in Indonesia," reflects Indonesia's recent slip to a net oil importer and the GOI's target of boost oil production back to 1.3 million bpd by 2009. Indonesia's oil production peaked in 1995, when production reached 1.6 million bpd, but has since declined to approximately 1.1 million bpd in 2004. According to the IPA, issues influencing investment in the oil and gas sectors include regulatory uncertainties and delays in Value Added Tax (VAT) reimbursement. Over 2,500 delegates participated in the convention.